Ranchmen's Resources (1976) Ltd.

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Annual Report 1980

RANCHMEN'S RESOURCES (1976) LTD.

Corporate Information

As of March 1st, 1981

HEAD OFFICE

Current
#550, 444 - 5th Avenue S.W.
Calgary, Alberta
T2P 2T8
(403) 265-0262

Effective May 1st, 1981
5th Floor - Chevron Plaza
500 - 5th Avenue S.W.
Calgary, Alberta
T2P 3L5
(403) 265-0262

SUBSIDIARY COMPANIES

Bluemount Minerals Ltd.
Brady Oil and Gas Limited
98555 Alberta Ltd.

TRANSFER AGENT

Montreal Trust Company
411 Eighth Avenue S.W.
Calgary, Alberta

BANKERS

The Royal Bank of Canada
Main Branch
339 Eighth Avenue S.W.
Calgary, Alberta

AUDITORS

Peat, Marwick, Mitchell & Co.
2500, 700 Second Street S.W.
Calgary, Alberta

SOLICITORS

Howard, Mackie
Third Floor, One Calgary Place
330 Fifth Avenue S.W.
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Alberta Stock Exchange

DIRECTORS

R. W. Andrew, Calgary
G. R. Bongard, Toronto
J. C. Byrne, Toronto
W. R. Gulliver, Calgary
P. N. Holtby, Toronto
W. A. Howard, Calgary
J. G. McDonald, Calgary
J. S. Poyen, Calgary
W. Scott, Tulsa, Oklahoma
H. N. Stewart, Calgary

OFFICERS

J. G. McDonald, Q.C.
Chairman of the Board & President

K. E. Sully, P.Eng.
Vice President — Corporate Planning

E. K. Kaita, C.A.
Vice President & Controller

T. D. Brooker, P.Eng.
Vice President — Operations

R. G. Powers
Secretary

J. Brackpool
Assistant Secretary

The Annual Meeting and Special General Meeting of the Company will be held in the Bel-Aire Room, Calgary Inn, 320 Fourth Avenue S.W., Calgary, on Monday, April 27, 1981 at 2:30 p.m. and 3:00 p.m., Calgary Time respectively.

Front cover photograph compliments of Total Eastcan Exploration Ltd.

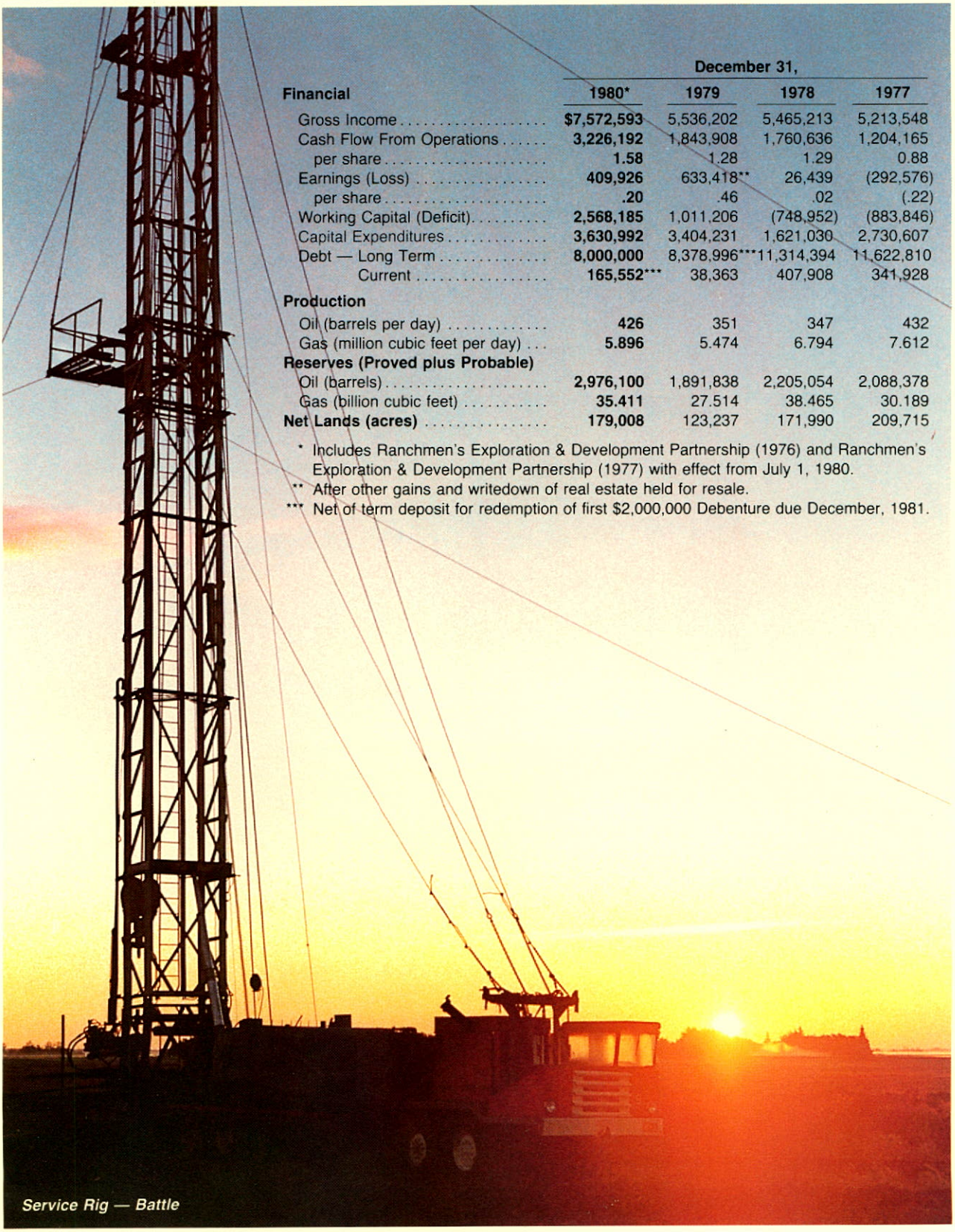
Highlights

	December 31,			
Financial	**1980***	**1979**	**1978**	**1977**
Gross Income	**$7,572,593**	5,536,202	5,465,213	5,213,548
Cash Flow From Operations	**3,226,192**	1,843,908	1,760,636	1,204,165
per share	**1.58**	1.28	1.29	0.88
Earnings (Loss)	**409,926**	633,418**	26,439	(292,576)
per share	**.20**	.46	.02	(.22)
Working Capital (Deficit)	**2,568,185**	1,011,206	(748,952)	(883,846)
Capital Expenditures	**3,630,992**	3,404,231	1,621,030	2,730,607
Debt — Long Term	**8,000,000**	8,378,996***	11,314,394	11,622,810
Current	**165,552*****	38,363	407,908	341,928
Production				
Oil (barrels per day)	**426**	351	347	432
Gas (million cubic feet per day)	**5.896**	5.474	6.794	7.612
Reserves (Proved plus Probable)				
Oil (barrels)	**2,976,100**	1,891,838	2,205,054	2,088,378
Gas (billion cubic feet)	**35.411**	27.514	38.465	30.189
Net Lands (acres)	**179,008**	123,237	171,990	209,715

* Includes Ranchmen's Exploration & Development Partnership (1976) and Ranchmen's Exploration & Development Partnership (1977) with effect from July 1, 1980.

** After other gains and writedown of real estate held for resale.

*** Net of term deposit for redemption of first $2,000,000 Debenture due December, 1981.



Service Rig — Battle

Report to our Shareholders

This Report deals with the past, the present, and the future of our Company. 1980 marked the beginning of a transition for our Company from a small independent Canadian producer to a very active Canadian resource exploration and development Group. While our performance during this decade cannot be predicted, it remains our ambition to see the Company grow to a prominent Canadian owned and controlled resource company.

Financial

In May 1980, the Company offered to exchange Class "A" Common, Non-Voting shares for the partnership interests of the limited partners in our 1976 and 1977 Exploration and Development Partnerships. Approximately 95% of the partnership interests were exchanged for Ranchmen's shares. These transactions have been accounted for by the purchase method, and consequently the operating results of partnership interests have been consolidated with those of the Company from July 1, 1980. Had the partnerships been consolidated with effect from January 1, 1980, the Company's cash flow from operations would have been $3,802,964, as compared to $3,226,192. These transactions increased the Company's oil reserves by 66% and its gas reserves by 27%.

Other major events of 1980 and early 1981 affecting the Company involved our Agreements with Total Eastcan Exploration Ltd., ("Eastcan"), a wholly-owned subsidiary of Compagnie Francaise des Petroles ("CFP"), and the impact of the National Energy Program.

You must appreciate the complexity of negotiations that commenced in August of 1979, and were formalized in a Letter of Intent signed on December 11, 1979. The final closing of this transaction has been complicated by three Income Tax Amending Bills, two Federal budgets, a general election, and a new National Energy Program. During this period, your Board of Directors had to deal with rapidly changing conditions, and our staff had to work uncounted extra hours to cope with engineering, accounting and legal problems in an environment of changing legislation.

It is presently anticipated that the Eastcan transaction will close in early June, 1981, subject to your approval at the Special General Meeting of Shareholders to be held in Calgary on April 27th, 1981. Details of the Special General meeting are set forth in an Information Circular accompanying the Notice of Meeting to all Shareholders.

Basically, under this transaction, we will acquire approximately a 12% working interest in the Labrador Group federal and provincial exploration permits for $47 million, and Eastcan will become a minority shareholder of our Company. Subject to the conditions set out on page 20 of this Report, Eastcan is contributing $54.2 million to our new equity and debt capital.

Ranchmen's Exploration Ltd.

An important member of the Ranchmen's Group is Ranchmen's Exploration Ltd., ("REL"). REL is 20% owned by the Company and 80% owned by a group of Institutional Investors representing 23 Canadian Pension Trusts and Retirement Funds. One of the terms of the Eastcan transaction is that a majority of the REL shares will be exchanged for Class "A" Common, Non-Voting shares of the Company. It is our understanding that such exchange will be made.

National Energy Program

The National Energy Program ("NEP") was announced last October. Under the NEP as proposed to date, a Petroleum Monitoring Agency ("PMA") has been established to certify the Canadian Ownership Rate ("COR") of oil and gas companies operating in Canada. Companies that are Canadian controlled and meet the maximum COR requirements are entitled to receive tax-free, non-refundable, Federal Petroleum Incentive Payments ("PIP") at the following rates:

80% — For approved exploration expenses on Canada Lands.

35% — For exploration expenses on Provincial lands.

20% — For development on Provincial lands.

For our Company, this means that participation in the drilling of the Labrador Group exploratory permits would only cost the Company $2,000,000 for each $10,000,000 of approved exploration expenses incurred by us provided that the Company maintains the maximum COR required. Under the Eastcan Agreement, Eastcan cannot reduce the Company's COR below the maximum level.

Proposed Financing

Our Company is proposing to make a public financing of Cumulative Redeemable Convertible First Preferred shares and concurrently to offer to exchange such shares for limited partnership interests in two limited partnerships which have on-stream production in Alberta. The Company's parent Canadian Oil & Gas Fund Ltd. is general partner for both these partnerships. If the offer is successful, the Company will become the General Partner.

The cash proceeds received from the public financing will be applied to the Company's Alberta development drilling program, leaving our present cash flow free for exploration in new areas.

Operations

During 1980 a total of 96 wells were drilled on lands in which the Company has an interest. The Company was a working interest participant in 55 of the wells which resulted in 3 oil wells, 47 gas wells, 4 dry holes and 1 abandonment due to mechanical problems. Most of the successful wells are now on production. Farmout agreements resulted in 41 wells being drilled; 3 oil wells, 21 gas wells and 17 dry holes.

Directors, Management and Staff

Mr. J. C. Byrne, Chairman and Chief Executive Officer of Rayrock Resources Ltd., was appointed to the Board following Mr. White's resignation at the end of 1980.

Several promotions have been made within the senior management group, with the appointment of Mr. K. E. Sully as Vice-President, Corporate Planning and subsequent to year end the appointments of Mrs. E. K. Kaita as Vice-President and Controller; Mr. T. D. Brooker as Vice-President, Operations; and Miss J. Brackpool as Assistant Secretary.

The Directors express their appreciation to all employees for their efforts, which have contributed so much to the Company's continued success.

On Behalf of the Board of Directors

JOHN G. McDONALD
Chairman and President

Financial

One of the financial highlights of the year was the success of our offer to the limited partners of our public partnerships to exchange their interests for shares of the Company. The holders of 1,023 of the 1,084 partnership interests of Ranchmen's Exploration & Development Partnership (1976) exchanged their interests for 460,350 Class "A" Common, Non-Voting shares of the Company and the holders of 1,601 of the 1,667 partnership interests of Ranchmen's Exploration and Development Partnership (1977) exchanged their interests for 678,824 Class "A" Common, Non-Voting shares of the Company. The consolidation of the partnership assets with those of the Company, with effect from July 1, 1980, has resulted in increased earnings, working capital, and oil and gas reserves as well as providing a larger and more diverse group of shareholders.

During the year the Company exchanged 84,822 Class "A" Common, Non-Voting shares for all of the issued and outstanding shares of 98555 Alberta Ltd. which owns working interests in lands common to our two public partnerships.

The Company issued 84,328 Class "A" Common, Non-Voting shares and 3,552 Class "C" Common, Voting shares in exchange for 40,000 10% Series "A" Preferred shares (having a nominal or par value of $10 per share) of Canadian Oil & Gas Fund Ltd., the parent Company. This exchange occurred as a result of an agreement entered into in 1975 by a predecessor company.

Production revenue has increased since 1979 because of rising product prices, and the acquisition of the partnership interests. During 1980 the Company continued to have its gas production shut-in from time to time and received prepaid gas revenue as partial compensation. While this revenue is not reflected on the earnings statement it adds to our working capital.

Most expenses have increased since 1979; however, interest expense has decreased even though 1980 was a year of extremely high interest rates. The Company paid interest at 7-½% for the entire year on its Income Debentures and, although this interest is not an allowable expense for income tax purposes, the after tax cost of borrowing was substantially less than it would have been under normal bank borrowing rates.

Four Year Summary

	1980	1979*	1978	1977
Production revenue**	**$6,169,833**	4,961,541	4,943,377	4,082,441
Working capital provided from operations	**$3,802,964**	2,780,437	2,415,512	1,496,440
Additions to property and equipment	**$5,524,549**	5,222,541	2,894,557	3,973,135
Prepaid revenue received	**$ 727,686**	300,608	359,884	—

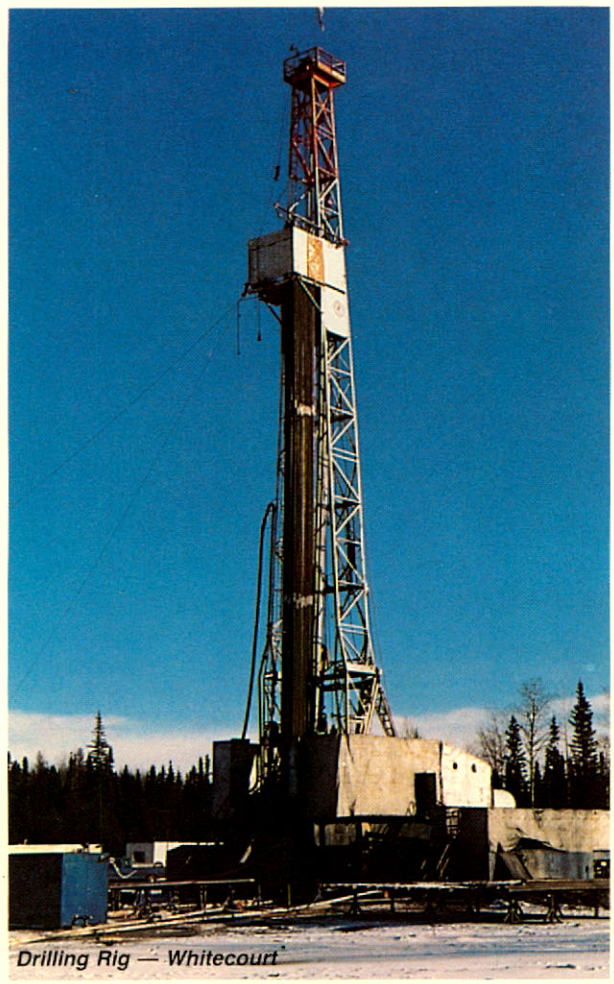
The figures in this table include 100% of the two public partnerships from 1977 for comparative purposes.

* In 1979 Ranchmen's sold producing properties to Ranchmen's Exploration Ltd.

** Includes Alberta Royalty Tax Credit

Operations

During 1980, Ranchmen's continued to work to maximize cash flow by participating only in low risk development drilling for gas in contracted areas and for oil. Higher risk leases near the end of the lease term were farmed out to other operators who paid all costs to earn an interest in the farmout lands. These policies resulted in a total of 96 wells being drilled on lands in which the Company has an interest. In spite of 1980 political uncertainties, this compares very well with a total of 79 and 75 wells in 1979 and 1978 respectively. Thus although net reserves did not increase dramatically, cash flow from operations increased by 36.8% from $2,780,437 in 1979 to $3,802,964 in 1980. (These figures include 100% of the two public partnerships for comparative purposes). This increase is particularly encouraging since several very successful projects were not placed on production until the fourth quarter of 1980.



Drilling Rig — Whitecourt

Working Interest Projects

The Company was a working interest participant in a total of 55 wells, all drilled in Alberta during 1980, resulting in 3 oil wells, 47 gas wells, 4 dry holes, and 1 abandonment due to mechanical problems.

Summary

	Company Interest %	Oil	Gas	Dry	Other
Athabasca	10.0		1		
Battle (Kiron)	40.1	1			
Bruce	3.8		1		
Deer Mountain	36.0	1			1
Duncan (Tower)	10.0		3		
Granor	6.3		1		
Hilda Gas Unit	1.18		6		
Matziwin	6.3		7		
Med Hat #4	18.5		1		
Nixon	1.0		3		
Peter	3.3			1	
Princess	0.2		18		
Rosalind	30.1		1	1	
Royal Park	2.5		1		
Taber	46.0			1	
Warwick	12.5		4		
Whitecourt	31.8	1			
Windfall	31.8			1	
Total 55 wells		3	47	4	1

Battle

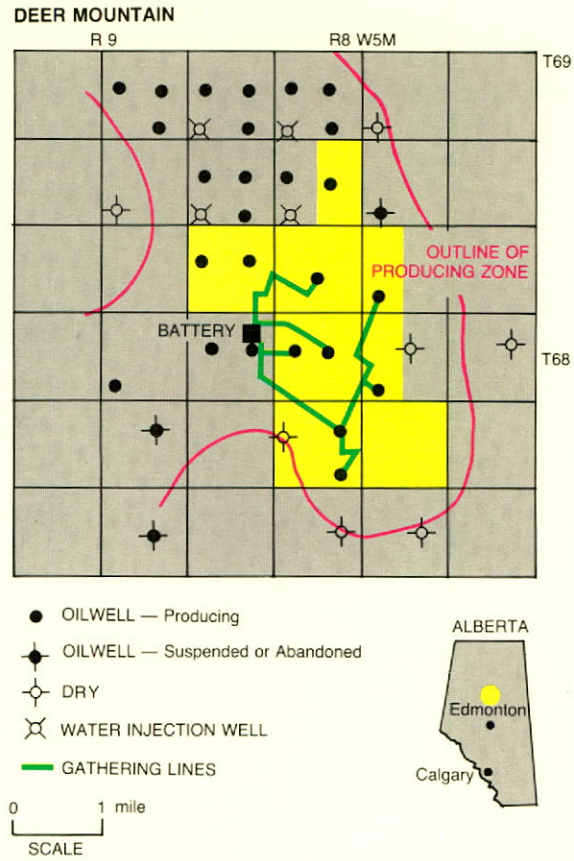
In the Camrose area, a central battery and a pipeline system were constructed to process a total of approximately 50 barrels of oil per day ("BOPD") from 4 Company wells. In 1980 another well was drilled and placed on production at 50 BOPD bringing total company production in this area to 100 BOPD. Due to these encouraging results further drilling is now planned for the summer of 1981.

Whitecourt

A well drilled in the Whitecourt area in early 1980 was production tested over the summer with marginal success; however, a fracturing stimulation has now been completed and preliminary results indicate that the well may be capable of 20 BOPD and 0.80 million cubic feet of gas per day. Due to the high ratio of gas produced with oil in this area, a $900,000 gas conservation project is planned for 1981 that involves a pipeline crossing of the Athabasca river. The system will serve this well, another Company well, and planned additional drilling.

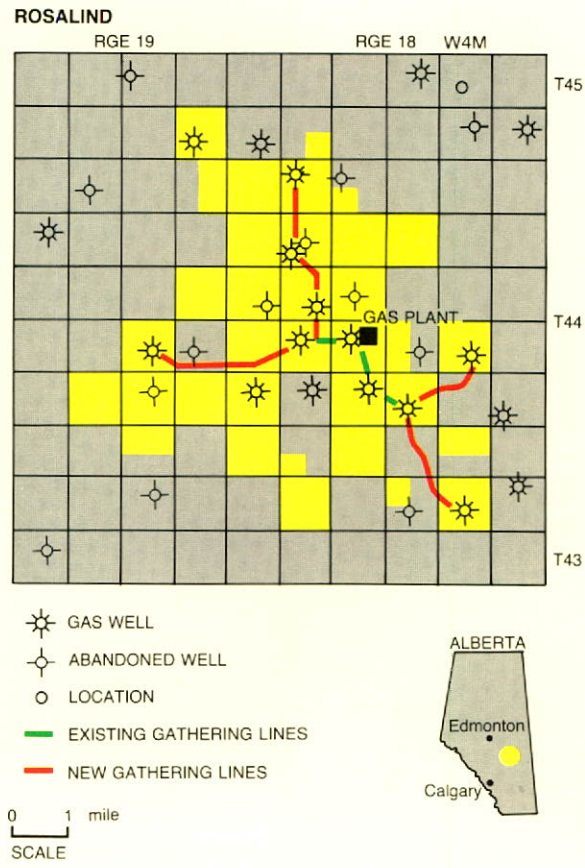
Deer Mountain

In early 1980, a well was drilled in Deer Mountain which encountered oil, but was abandoned due to mechanical problems. A second well in late 1980 has been successfully production tested at 80 BOPD and is being connected to the central battery. Early in 1981, a well offsetting the abandoned well was drilled, and is now on production at over 100 BOPD. The success of the 2 wells drilled in the winter of 1980/81 is very encouraging and extensive development of the area is planned for next winter guided by the results of an enhanced recovery study now in progress. The successful implementation of this enhanced recovery project and infill drilling program may prove reserves now considered to be probable and thus increase the total proven oil reserves of the company.



Rosalind

As part of an area development plan 2 wells were drilled in the Rosalind area, resulting in 1 dry hole and 1 gas well. This well, and 4 other Company wells, were tied-in to an expanded Rosalind gas compressor plant. Effective November 1, 1980, based on a re-negotiated contract, the Company successfully increased gas sales in the Rosalind area from 3 million cubic feet per day ("MMCFD") to 5 MMCFD.



Farmouts

Other operators drilled 41 wells on Company lands, resulting in 21 gas wells, 3 oil wells, and 17 dry holes. A significant oil well was drilled in Taber, adjacent to a dry hole, and is currently producing 100 BOPD. A follow-up offset well in which the Company will participate, is planned for 1981. Two gas wells were drilled in the Buffalo Lake area, which each tested at rates up to 5.5 MMCFD. These wells have now been completed and the operator is negotiating for a gas contract.

Summary

	Royalty* Interest %	Oil	Gas	Dry
Alliance	6.3		1	
Bruce	6.3		2	
Buffalo Lake	4.7		2	
Forestburg	6.3	1		2
Holden	6.3		2	2
Killam	4.8		1	6
Killam N	4.5		2	3
Marlboro	6.3		1	
Paintearth	3.2			1
Provost	6.3	1	7	1
Ranfurly	1.3			1
Rosalind	4.8		2	1
Taber	13.8	1		
Thompson Lake	7.5		1	
Total 41 wells		3	21	17

* After pay-out of the operator's costs the Company's royalty interest will revert to a working interest approximately 3.33 times the royalty interest shown.

Tank — Deer Mountain

Production and Reserves

Summary of Average Production and Year-end Reserves

	Oil		Gas	
	barrels	m^3	mmcf	10^3 m^3
Average Daily Production				
1977	432	68.6	7.612	214.4
1978	347	55.1	6.794	191.4
1979	351	55.8	5.474	154.2
1980 (includes Partnerships from July 1)	426	67.7	5.896	166.1
Proven Reserves				
1977	953,952	151,593	25,400	715,518
1978	874,056	138,896	32,586	917,948
1979	892,763	141,869	23,899	673,235
1980	1,307,852	207,831	31,874	897,891
Proven Plus Probable Reserves				
1977	2,088,378	331,864	30,189	850,424
1978	2,205,054	350,405	38,465	1,083,559
1979	1,891,838	300,632	27,514	775,069
1980	2,976,100	472,932	35,411	997,528

The Company's reserves are determined annually by two independent engineering consultants. D & S Petroleum Consultants (1974) Ltd. have evaluated the interests of the Company in the lands which were acquired from Bluemount Resources Ltd. in 1976. Kloepfer, Coles, Nikiforuk, Pennell Associates Ltd. have evaluated the interests of the Company in the non-Bluemount lands.

The independent engineering consultants have estimated the future net cash flow of the Company effective December 31, 1980, after deduction of all royalties and interests owned by others, operating expenses, anticipated capital expenditures, and the recently introduced Petroleum and Gas Revenue Tax, but before the deduction of income taxes.

A progressive increase in reserves and oil and gas production has been offset by a sale in 1979 of a portion of the Company's assets to Ranchmen's Exploration Ltd.

During 1980, the Company acquired approximately 94% of the partnership interests of Ranchmen's Exploration & Development Partnership 1976 ("REDPAR '76") and approximately 96% of the partnership interests of Ranchmen's Exploration & Development Partnership 1977 ("REDPAR '77"). This transaction increased the Company's oil reserves by 66% and its gas reserves by 27%.

The majority of the probable reserves of the Company have been assigned to the infill locations and the incremental recovery associated with the waterflood in the Deer Mountain area. The Company is proceeding with a reservoir simulation study of the property, and proposes to implement a waterflood recovery project within two years. A successful waterflood has been operated adjacent to the Company's Deer Mountain property for over 10 years.

Land

A 45% increase in the Company's net working interest acreage from 123,237 acres to 179,008 acres reflects the acquisitions of the majority of the partnership interests of REDPAR '76 and REDPAR '77. The change also reflects the normal expiration of some leases, the acquisition of new lands, and farmouts to third parties.

Under most farmout agreements, the Company retains a royalty interest in the lands until the capital costs of the earning well are paid out, at which time the Company has the option to convert back to a working interest. The Company now owns royalty interests in 62,880 lease acres.

As at December 31, 1980 the fair market value of the 132,329 acres of undeveloped lands was determined to be $5,300,995 by independent engineers.

Production Summary

	Oil		Gas	
	barrels	m^3	mmcf	$10^3 m^3$
1980 Annual Production				
Ranchmen's Resources (1976) ...	131,800	20,944	1928	54,312
94% REDPAR '76	21,300	3,385	227	6,395
96% REDPAR '77	23,000	3,655	213	6,000
Total	176,100	27,984	2368	66,707

Reserve Summary

	Oil		Gas	
	barrels	m^3	mmcf	$10^3 m^3$
Proved Plus Probable Reserves as of Dec. 31, 1979.....	1,891,838	300,632	27,514	775,069
Additions:				
94% REDPAR '76 (1/1/80)	606,000	96,299	3,815	107,468
96% REDPAR '77 (1/1/80)	647,100	102,831	3,642	102,595
Drilling & revisions in estimates.....	7,262	1,153	2,808	79,103
Production.....	(176,100)	(27,984)	(2,368)	(66,707)
Reserves as of Dec. 31, 1980.....	2,976,100	472,931	35,411	997,528

Cash Flow Summary

	Estimated Future Net Cash Flow (thousands of dollars) Discounted at			
Former Bluemount Properties.....	0%	10%	15%	20%
Proved				
Ranchmen's Resources (1976) .	$ 44,555	$17,706	$12,932	$10,023
94% REDPAR '76	20,322	8,054	5,863	4,528
96% REDPAR '77	19,653	7,734	5,625	4,345
Probable Additional				
Ranchmen's Resources (1976) .	27,459	5,221	2,367	858
94% REDPAR '76	11,474	2,210	1,018	387
96% REDPAR '77	11,685	2,180	967	326
Sub-Total.....	135,148	43,105	28,772	20,467
Non-Bluemount Properties				
Proven	79,344	26,361	19,293	15,162
Probable	19,961	4,105	2,427	1,607
Sub-Total.....	99,305	30,466	21,720	16,769
Total	$234,453	$73,571	$50,492	$37,236

Eastcan Transaction

On December 11, 1979 Ranchmen's signed a Letter of Intent with Total Eastcan Exploration Ltd. ("Eastcan") and Canadian Oil and Gas Fund Ltd., whereby Ranchmen's and Eastcan would proceed to consolidate their respective oil and gas interests into one corporation. The parties have since agreed on the terms of a Plan of Arrangement which are set forth in an agreement among those parties dated September 19, 1980, as amended by written agreement dated February 24, 1981 (the "Definitive Agreement"). The conditions of the Definitive Agreement are summarized in Note 8 to the Consolidated Financial Statements.

History of Total Eastcan Exploration Ltd.

Eastcan, a wholly-owned subsidiary of Compagnie Francaise des Petroles ("CFP"), was incorporated on August 8, 1968 as a federal corporation to explore for and develop offshore Labrador oil and gas reserves. CFP is a Paris-based fully integrated oil company with worldwide operations in oil and gas interests and other energy related industries.

Eastcan owns working interests in 22,283,597 acres of Federal Permits, of which 18,468,728 acres are dually permitted from the Province of Newfoundland. The permits parallel the Labrador coast for 600 miles.

Eastcan's entire interest in the Labrador Sea permits is held through its participation in a joint venture (the "Labrador Group") in which Eastcan has approximately a 12% working interest. The other participants in the Labrador Group are Gulf Canada Resources Inc., Petro-Canada Exploration Inc., Aquitaine Company of Canada Ltd., AGIP Canada Ltd., SUNCOR Inc., Amerada Minerals Corporation of Canada Ltd., and Total Petroleum (North America) Ltd. ("TOPNA").

In 1979, Eastcan, Amerada, and TOPNA as farmors, agreed to farmout an interest to Gulf Canada, Petro-Canada, and Aquitaine, as farmees during the 1979 and 1980 drilling seasons. Petro-Canada is now the Operator of the project, while Eastcan was the Operator until February 1980.

Eastcan Exploration Activity

Eastcan acquired its interest in the offshore Labrador permits on June 1, 1968, and since the first well in 1973 has participated in 16 wells to date. Two additional wells were partially drilled in 1980, and are expected to be re-entered in the 1981 drilling season.

Ten wells have been drilled in the Hopedale Basin (South Labrador) by the Labrador Group resulting in three potential gas wells, 6 dry holes and one well which could not be tested. The first success encountered was the Bjarni H-81 well drilled in 1973 which tested gas at 12.8 million cubic feet per day from a Lower Cretaceous sandstone formation. In 1979, a 2 km offset to the Bjarni discovery was drilled and encountered gas. This well may be re-entered in 1981 for testing.

Five wells have been drilled by the Labrador Group in the Saglek Basin (North Labrador) which resulted in 1 gas discovery at Snorri, and four dry holes.

A dry hole has been drilled off southeast Labrador near the Strait of Belle Isle, in the Orphas Basin.

1980 Labrador Results

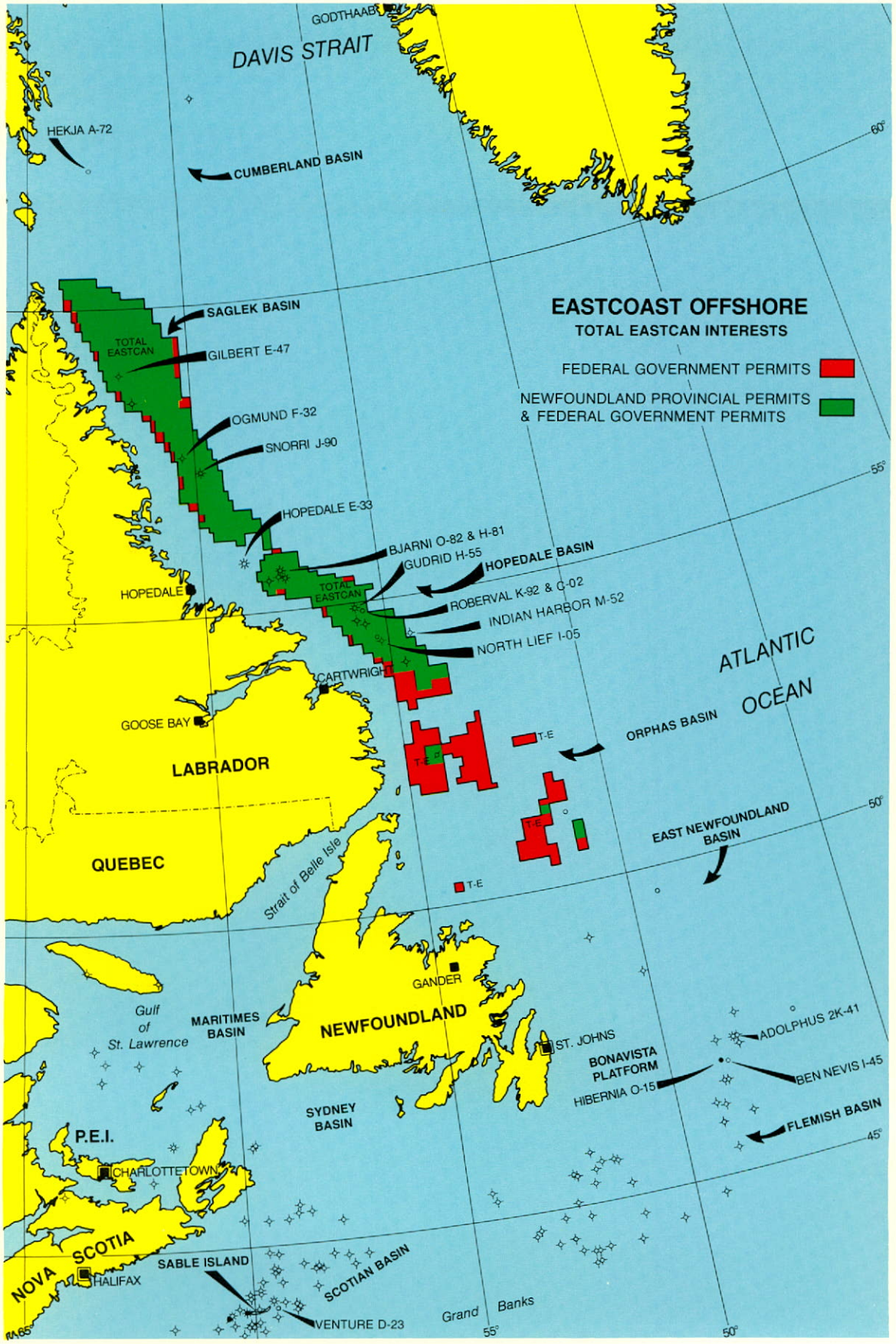
Three drillships were contracted on behalf of the Labrador Group for the 1980 campaign. In the Saglek Basin the Gilbert E-47 well, drilled to 1728 m in 1979, was deepened to 3608 m and abandoned. In the Hopedale Basin the Roberval K-92 was offset 1.8 Km to the west by Roberval C-02 which was drilled to 2823 m and failed to encounter any hydrocarbon. Ogmund F-32 was drilled 35 Km northwest of the Snorri gas discovery and was abandoned at 2947 m. In addition, two exploratory wells North Bjarni F-06 and North Leif I-05 were spudded and will be deepened in 1981.

Eastcan Discoveries Drilled to Date

Well Name	Year Drilled	Total Depth (m)	Pay (m) [thickness]	Zone and Rock Type	Tested Productive Status	Tested Productive Rate (mmcf/d)
Bjarni H-81	1973	2515	2256-2149 [107]	Cretaceous Sandstone	Gas	12.8
Bjarni 0-82*	1979	2650		Sandstone	Gas	—
Gudrid H-55	1974	2838	2805-2662 [143]	Carboniferous Dolomite	Gas	20
Snorri J-90	1975	3210	2515-2493 [22]	Tertiary Sandstone	Gas	10
Roberval K-92**	1979	3874	—	Paleozoic Carbonates	—	—

* Located 2 km from H-81, will be re-entered in 1981 for testing.

** Roberval K-92 is considered a gas or oil discovery but has not yet been tested.


DAVIS STRAIT
GODTHAAB
HEKJA A-72
CUMBERLAND BASIN
EASTCOAST OFFSHORE
TOTAL EASTCAN INTERESTS
FEDERAL GOVERNMENT PERMITS
NEWFOUNDLAND PROVINCIAL PERMITS & FEDERAL GOVERNMENT PERMITS
SAGLEK BASIN
TOTAL EASTCAN
GILBERT E-47
OGMUND F-32
SNORRI J-90
HOPEDALE E-33
BJARNI O-82 & H-81
GUDRID H-55
HOPEDALE BASIN
HOPEDALE
ROBERVAL K-92 & C-02
INDIAN HARBOR M-52
NORTH LIEF I-05
CARTWRIGHT
ATLANTIC OCEAN
GOOSE BAY
LABRADOR
ORPHAS BASIN
T-E
EAST NEWFOUNDLAND BASIN
QUEBEC
Strait of Belle Isle
GANDER
Gulf of St. Lawrence
MARITIMES BASIN
NEWFOUNDLAND
ST. JOHNS
ADOLPHUS 2K-41
BONAVISTA PLATFORM
HIBERNIA O-15
BEN NEVIS I-45
SYDNEY BASIN
FLEMISH BASIN
P.E.I.
CHARLOTTETOWN
NOVA SCOTIA
SABLE ISLAND
HALIFAX
SCOTIAN BASIN
VENTURE D-23
Grand Banks
60°
55°
50°
45°

Consolidated Balance Sheet

December 31, 1980
(with comparative figures for 1979)

Assets

	1980	1979
Current assets:		
Cash and short-term deposits	**$ 1,899,019**	363,411
Accounts receivable	**3,145,410**	2,810,806
Term deposit (Note 3)	**1,834,448**	—
Total current assets	**6,878,877**	3,174,217
Non-current investments and receivables:		
Term deposit (Note 3)	**—**	1,621,004
Mortgages receivable, net of current portion	**198,460**	24,404
Real estate held for resale, at cost less amounts written off	**198,416**	373,416
Investment in Ranchmen's Exploration Ltd., at equity	**365,194**	378,048
Investment in Canadian Oil & Gas Fund Ltd., at cost	**400,000**	—
	1,162,070	2,396,872
Property and equipment, at cost less depreciation and depletion:		
Oil and gas properties	**32,283,497**	17,160,717
Production equipment	**4,709,249**	2,148,174
Office equipment	**94,601**	82,658
	37,087,347	19,391,549
Less accumulated depreciation and depletion	**5,430,424**	3,669,321
	31,656,923	15,722,228
Other assets:		
Unamortized financing costs	**213,486**	274,752
Sundry, at cost	**48,072**	46,901
	261,558	321,653
	$39,959,428	21,614,970

On behalf of the Board:

Director

Director

See accompanying notes.

Liabilities and Shareholders' Equity	1980	1979
Current liabilities:		
Accounts payable and accrued liabilities	**$ 2,310,692**	2,124,648
Current portion of long-term debt (Note 3)	**2,000,000**	38,363
Total current liabilities	**4,310,692**	2,163,011
Long-term debt (Note 3)	**8,000,000**	10,000,000
Prepayment for future gas production	**1,407,637**	546,454
Deferred income taxes	**2,955,074**	2,052,074
Minority interests	**559,888**	3,423
Shareholders' equity:		
Share capital (Notes 4 and 8):		
Preferred shares with a nominal or par value of $10 per share Authorized: 1,400,000 Shares Issued: nil		
Common shares without nominal or par value Authorized: 4,900,000 Shares divided into 4,600,000 Class "A" Common, Non-Voting Shares and 300,000 Class "C" Common, Voting Shares		
Issued: 2,656,124 (1979 — 1,334,300) Class "A"	**21,514,689**	6,064,472
113,014 (1979 — 109,462) Class "C"	**512,298**	496,312
Contributed surplus	**1,737,590**	1,737,590
Deficit	**(1,038,440)**	(1,448,366)
Commitment (Note 7)	**22,726,137**	6,850,008
	$39,959,428	21,614,970

See accompanying notes.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Ranchmen's Resources (1976) Ltd. as at December 31, 1980 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
March 27, 1981

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Consolidated Statement of Earnings and Deficit

Year ended December 31, 1980
(with comparative figures for 1979)

	1980	1979
Revenues:		
Sales of natural gas and crude oil	**$7,200,318**	5,062,013
Less royalties	**2,044,903**	1,520,090
Production revenue	**5,155,415**	3,541,923
Other	**372,275**	474,189
	5,527,690	4,016,112
Expenses:		
Operating	**1,028,158**	643,413
General and administrative	**904,322**	603,920
Depreciation	**201,000**	127,000
Depletion	**1,504,000**	1,029,000
Interest — income debentures, including amortization of financing costs	**811,266**	809,923
— other long-term debt	**3,958**	198,814
	4,452,704	3,412,070
Earnings before the following	**1,074,986**	604,042
Other gains	**—**	1,393,809
Writedown of real estate held for resale	**—**	(258,102)
Minority interest	**(7,030)**	—
Earnings before income taxes	**1,067,956**	1,739,749
Income taxes (Note 5):		
Current, Net of Alberta Royalty Tax Credit	**(391,970)**	(23,669)
Deferred	**1,050,000**	1,130,000
	658,030	1,106,331
Net earnings	**409,926**	633,418
Deficit, beginning of year	**1,448,366**	2,072,282
Dividends paid on Preferred Shares	**—**	9,502
Deficit, end of year	**$1,038,440**	1,448,366
Earnings per share	**$ .20**	.46
Fully diluted earnings per share	**$ .15**	.38

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1980
(with comparative figures for 1979)

	1980	1979
Sources of funds:		
Operations		
Net earnings	**$ 409,926**	633,418
Add items not requiring working capital:		
Writedown of real estate held for resale	**—**	258,102
Depreciation	**201,000**	127,000
Depletion	**1,504,000**	1,029,000
Amortization of financing costs	**61,266**	60,197
Deferred income taxes	**1,050,000**	1,130,000
Other gains	**—**	(1,393,809)
Working capital provided from operations	**3,226,192**	1,843,908
Term deposit becoming current	**1,621,004**	—
Prepayment for future gas production	**727,686**	231,617
Proceeds on issue of shares	**15,319,203**	414,375
Proceeds on sale of property and equipment	**—**	5,525,451
	20,894,085	8,015,351
Use of funds:		
Reduction of long-term debt	**2,000,000**	1,314,394
Investment in Ranchmen's Exploration Ltd.	**—**	7,153
Additions to property and equipment	**3,630,992**	3,404,231
Purchase of term deposit and interest thereon	**—**	1,621,004
Acquisition of partnership interests and a wholly-owned subsidiary less working capital of $2,013,526	**13,286,424**	—
Dividends paid on Preferred Shares	**—**	9,502
Distributions to minority interests	**38,896**	—
Investment in Canadian Oil & Gas Fund Ltd.	**400,000**	—
Other	**(19,206)**	(101,091)
	19,337,106	6,255,193
Increase in working capital	**1,556,979**	1,760,158
Working capital (deficiency), beginning of year	**1,011,206**	(748,952)
Working capital, end of year	**$ 2,568,185**	1,011,206

See accompanying notes.

Notes to Consolidated Financial Statements

December 31, 1980

Ranchmen's Resources (1976) Ltd. is incorporated under the Companies Act, Alberta and explores for and develops oil and gas reserves.

1. Significant Accounting Policies:

a) Principles of Consolidation:

The consolidated financial statements include the accounts of the Company; its subsidiaries; Ranchmen's Exploration & Development Partnership (1976), a limited partnership which is approximately 94% owned and Ranchmen's Exploration & Development Partnership (1977), a limited partnership which is approximately 96% owned.

The accounts of a United States subsidiary are immaterial.

b) Property and Equipment:

The Company follows the full cost method of accounting whereby all costs and expenses of exploring for and developing oil and gas reserves, including applicable administrative costs, are capitalized, and these costs, together with production equipment, are being depleted or depreciated on the composite unit of production method based on estimated proven reserves as determined by independent engineers. Proceeds on minor property sales are credited to the net book value of property and equipment without recognizing any gain or loss on disposition. Gains or losses on major property sales are recognized in earnings.

c) Joint Venture Accounting:

Substantially all of the Company's exploration and production activities related to oil and gas are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

d) Financing Costs:

The Company is amortizing its financing costs over an eight year period.

e) Investment at Equity:

The Company owns 20% of the common shares of Ranchmen's Exploration Ltd. and the investment is accounted for by the equity method.

f) Earnings Per Share:

Earnings per share have been calculated using the weighted average number of common shares outstanding during the year. The calculation of earnings per common share on a fully diluted basis assumes the conversion of all securities and exercise of all stock options which would have a dilutive effect on earnings per share.

g) Comparative Figures:

Certain comparative figures have been reclassified to conform with the current year's presentation.

2. Acquisitions:

On June 30, 1980 the Company acquired approximately 94% of the outstanding partnership interests of Ranchmen's Exploration & Development Partnership (1976) and approximately 96% of the outstanding partnership interests of Ranchmen's Exploration & Development Partnership (1977). Consideration consisted of 460,350 and 678,824 Class "A" Common, Non-Voting Shares respectively, and included 2,700 and 71,232 Class "A" Common, Non-Voting Shares paid to senior officers and directors in exchange for their partnership interests in Ranchmen's Exploration & Development Partnership (1976) and Ranchmen's Exploration & Development Partnership (1977).

On December 30, 1980 the Company acquired all of the outstanding shares of 98555 Alberta Ltd., which holds working interests in lands common to the two partnerships. Consideration consisted of 84,822 Class "A" Common, Non-Voting Shares.

These acquisitions have been accounted for as purchases and their operations have been consolidated from the dates the acquisitions were made. The excess of the cost to acquire these businesses over their net book value has been allocated to oil and gas properties and is being depleted on the composite unit of production method based on estimated proven reserves as determined by independent engineers.

Business acquisition table:

	Ranchmen's Exploration & Development Partnership (1976)	Ranchmen's Exploration & Development Partnership (1977)	98555 Alberta Ltd.	Total
Net assets acquired:				
Book value of assets	$ 4,726,280	7,801,002	324,097	12,851,379
Book value of liabilities	(259,336)	(297,388)	(176,802)	(733,526)
	4,466,944	7,503,614	147,295	12,117,853
Minority interest	(271,714)	(316,618)	—	(588,332)
Adjustment of assets to fair value	1,559,145	1,298,304	912,980	3,770,429
	$ 5,754,375	8,485,300	1,060,275	15,299,950
Consideration given:				
Shares (Note 4)	$ 5,633,901	8,307,652	1,060,275	15,001,828
Issue costs, net of deferred income taxes of $147,000				298,122
				$15,299,950

3. Long-Term Debt:

The Floating Rate Secured Serial Income Debentures bear interest at 1.5% plus one-half of the prime bank rate with a minimum of 5.5% and a maximum of 7.5% per annum payable semi-annually to the extent of available profit with a provision for deferral, if necessary. The debentures have been issued in five series of $2,000,000 principal amount each, maturing on each December 22, of 1981, 1982, 1983, 1984 and 1985. The Company holds a term deposit which, together with interest thereon, will be applied against the Series A Floating Rate Secured Serial Income Debenture due on December 22, 1981 in the amount of $2,000,000. The debentures are secured by a first fixed mortgage on certain oil and gas properties and a floating charge on all assets, and are redeemable by the Company on or after December 19, 1979 with accrued interest to the date of redemption.

4. Share Capital:

During the year the following shares were issued:

Class "A" Common, Non-Voting:

	1980		1979	
	Shares	**Amount**	**Shares**	**Amount**
Acquisitions of partnership interests and wholly-owned subsidiary	**1,223,996**	**$15,001,828**	—	—
Exchange of 40,000 10% Series "A" Preferred Shares of Canadian Oil & Gas Fund Ltd.	**85,328**	**384,014**	—	—
Pursuant to officers' and employees' options	**12,500**	**64,375**	12,500	64,375
Pursuant to a share purchase warrant indenture	—	—	100,000	350,000
Consolidation of Class "B" Common, Non-Voting Shares	—	—	151,730	1,138,012
	1,321,824	**$15,450,217**	264,230	1,552,387

Class "C" Common, Voting:

	1980		1979	
	Shares	**Amount**	**Shares**	**Amount**
Conversion of 8% Convertible Cumulative Redeemable Preferred Shares	—	$ —	39,200	145,000
Exchange of 40,000 10% Series "A" Preferred Shares of Canadian Oil & Gas Fund Ltd.	**3,552**	**15,986**	—	—
	3,552	**$15,986**	39,200	145,000

Share option agreements:

The following table summarizes transactions during the year under the key employee stock option plan, which relates to the Class "A" Common, Non-Voting Shares:

	1980	1979
Outstanding, beginning of year	37,500	—
Granted	4,000	50,000
	41,500	50,000
Exercised	12,500	12,500
	29,000	37,500
Cancelled	1,000	—
Outstanding, end of year	28,000	37,500

As at December 31, 1980, options to purchase 24,000 shares (1979 — 37,500) exercisable as to one half (1979 — one third) of the options annually to December 31, 1982 at a price of $5.15 and options to purchase 4,000 shares (1979 — nil) exercisable as to one quarter of the options annually to June 30, 1984 at a price of $8.55 were outstanding.

The Company has reserved an additional 8,000 Class "A" Common, Non-Voting Shares for the key employee stock option plan.

The Company has reserved 50,000 Class "A" Common, Non-Voting Shares pursuant to a share purchase warrant indenture whereby the holder thereof may purchase up to 50,000 Class "A" Common, Non-Voting Shares at any time up to the close of business on December 31, 1984 at a price of $3.25 per share.

The Company has reserved 286,120 Class "A" Common, Non-Voting Shares for issuance pursuant to a share exchange agreement with the holders of Class "A" Common Shares of Ranchmen's Exploration Ltd. which may be exercised by any or all of the Ranchmen's Exploration Ltd. shareholders on or before June 30, 1983 on a share for share basis. The subscription price for the Class "A" Common Shares was $10 per share.

5. Income Taxes:

Total income taxes amounted to $658,030 (1979 — $1,106,331), which is greater than the amount of $521,000 (1979 — $818,000) computed by applying the combined expected Canadian Federal and Provincial tax rates to earnings before income taxes. The reasons for these differences are as follows:

	1980	1979
Computed "expected" tax expense	$ 521,000	818,000
Increase (decrease) in taxes resulting from:		
Royalties payable to the Crown, net of provincial rebates and credits	315,000	229,000
Resource allowance	(583,000)	(396,000)
Allowance for earned depletion	(298,000)	(447,000)
Interest on income debentures	366,000	352,000
Depletion on non-tax base assets	358,000	78,000
Cost of assets disposed of which are non-deductible for income tax purposes	—	498,000
Other — net	(20,970)	(25,669)
	$ 658,030	1,106,331

6. Remuneration of Directors and Senior Officers:

The aggregate management fees and remuneration paid to directors and senior officers (which includes the five highest paid employees) for the year ended December 31, 1980 was approximately $400,000 (1979 — approximately $248,000).

7. Commitment:

The Company has entered into a 25 year management agreement with its parent, Canadian Oil & Gas Fund Ltd., wherein the Company will pay its share of administrative costs. In addition the Company will pay a fee of 5% of the cost of the property acquired and of shares of corporations acquired on behalf of the Company. During 1980 a fee of $57,181 (1979 — $14,320) was incurred. (The 5% fee on the acquisitions of the partnership interests (Note 2) was waived.) (See Note 8).

8. Subsequent Events:

(a) Pursuant to a Letter of Intent executed on December 11, 1979 between the Company, its parent Canadian Oil & Gas Fund Ltd. ("COGF"), and Total Eastcan Exploration Ltd. ("Total Eastcan"), the Company has entered into a Definitive Agreement, subject to obtaining authorizations and approvals, whereby:

i) The Company will acquire for cash, all of Total Eastcan's interests in Federal and Provincial oil and gas permits in the Labrador Sea for $47,000,000. The 1981 drilling commitment for these interests will be approximately $15,000,000.

ii) Total Eastcan will acquire for cash, that number of Class "A" Shares at a price of $12.50 per share so as to result in the Company maintaining the minimum rate of Canadian ownership (the "COR") required under the National Energy Program (Canada) that would entitle the Company to receive the maximum federal Petroleum Incentive Payments (the "PIP") under that program.

iii) Total Eastcan will concurrently with the purchase of the Class "A" Shares acquire 20 year, one percent (1%) unsecured convertible debentures (the "1% Convertible Debentures") in principal amount equal to the difference between $47,000,000 and the amount of Class "A" Shares purchased. The 1% Convertible Debentures will provide among other things, for an obligation from time to time on Total Eastcan to convert the 1% Convertible Debentures into that number of Class "A" Shares which will be as nearly as possible equal to but not greater than the maximum number of shares that would result in the Company maintaining the minimum COR entitling the Company to the maximum PIP. The conversion price shall be equal to $12.50 per share plus interest paid on the 1% Convertible Debentures to date, pro-rated to the number of shares issued on conversion.

iv) The Company will reorganize its share capital so as to divide 50,000 of the Class "C" Common, Voting Shares (Class "C" Shares) having no par value, presently registered in the name of Canadian Oil & Gas Fund Ltd. into 50,000 Class "D" Common, Voting Shares having no par value.

v) The Company shall, prior to closing, reorganize and increase its authorized capital to an amount at least sufficient to conclude the transactions contemplated by the Definitive Agreement.

vi) Concurrently with entering into any acquisition of onshore Canadian oil and gas properties, which the Company shall actively pursue, it will offer First Preferred Shares, for an aggregate consideration of $45,000,000 (or such other amount as is acceptable to the Company and Total Eastcan), including $5,000,000 of such shares to be subscribed for by Total Eastcan.

vii) Immediately after acquiring onshore Canadian oil and gas properties having an aggregate value of approximately $40,000,000 as contemplated above, the Company and COGF shall terminate the Management Contract between them in consideration of the Company paying the sum of $1,200,000 to COGF and issuing warrants to purchase 400,000 Class "A" Shares for a price of $25 per share, exercisable prior to December 15, 1984.

viii) Concurrently with the closing of the First Preferred Share Offering, Total Eastcan shall purchase from treasury 176,000 Class "A" Shares at $12.50 per share for a total consideration of $2,200,000.

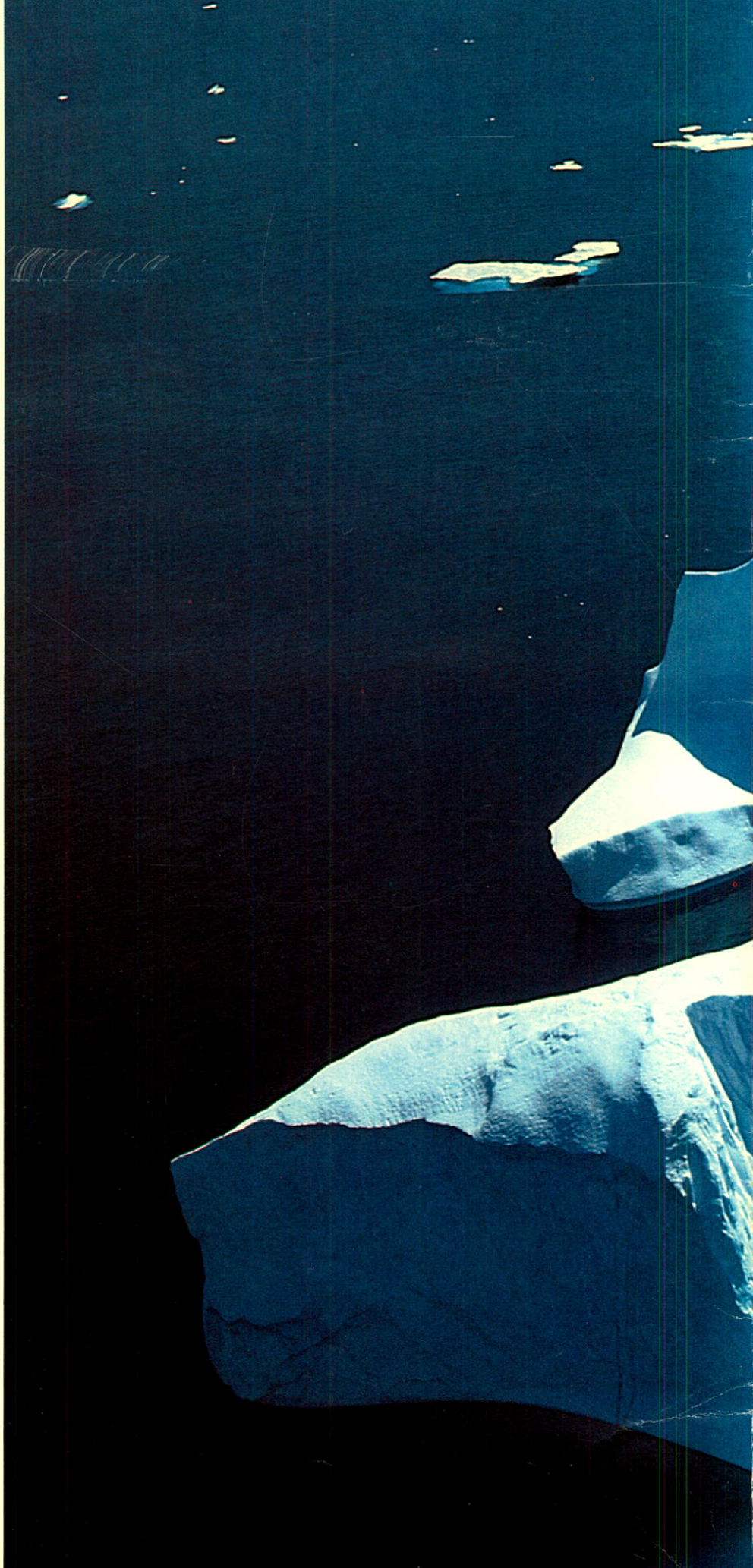
ix) Prior to closing, the holders of not less than 51% of the Class "A" Common Shares of Ranchmen's Exploration Ltd. shall have exchanged such shares for Class "A" Shares of the Company on a one-for-one basis.

(b) The company will, subject to obtaining the necessary approvals of the shareholders and subject to such modifications, variations or alterations, if any, as may arise at the Special General Meeting to approve the alterations, alter its Memorandum of Association as follows to facilitate the implementation of the Plan of Arrangement to provide additional authorized capital and to constrain the transfer of ownership of and trading in First Preferred Shares and Class "B" Common, Non-Voting Shares proposed to be created:

i) 50,000 of the 109,507 Class "C" Shares having no par value, presently registered in the name of COGF will be divided into 50,000 Class "D" Common, Voting Shares of Ranchmen's having no par value; and

ii) The existing authorized share capital of Ranchmen's will be reorganized and increased so as to consist of:

(A) 8,000,000 First Preferred Shares with a nominal or par value of $25 per share;
(B) 15,700,000 Class "A" Common, Non-Voting Shares, without nominal or par value;
(C) 50,000,000 Class "B" Common, Non-Voting Shares, without nominal or par value;
(D) 250,000 Class "C" Common, Voting Shares, without nominal or par value; and
(E) 50,000 Class "D" Common, Voting Shares, without nominal or par value.

Under certain conditions relating to residence or citizenship of individuals, or control of corporations of the subscriber, holder or transferee, the Company may refuse any subscription, or to register or recognize any transfer or transferee of the First Preferred Shares or Class "B" Common, Voting Shares and further, may sell or cause to be sold on behalf of the holder, or may redeem any such shares.

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